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SUBJECT: DEMOGRAPHY IS DESTINY: CHANCELLERY'S
PERSPECTIVE ON DEMOGRAPHIC CHANGE, SOCIAL
INSURANCE, AND LABOR MARKET REFORMS

¶1. Summary: Germany, like many industrialized nations, faces the enormous twin challenge of remaining competitive in a global economy while coping with the social and economic impact of demographic change. German policy makers confront a sobering demographic trend: the population of Germany is shrinking by 150,000 every year. The Federal Chancellery, however, is stepping up to the plate -- recognizing that its falling population will require a full range of policy reforms from greater financial support for child-rearing to enhancing access to work for the elderly to cutting back its social security system. The Chancellery is looking closely at various U.S. models, including the Earned Income Tax Credit Program and U.S. pension schemes, and is seeking closer ties with U.S. policymakers in these areas. So change is in the air, but Germany's population profile will limit the government's freedom of action. End Summary.

¶2. On September 6, EMIN, ECON Counselor and Labor Specialist met Dr. Ulrich Roppel, Director General for Social Affairs, Health Policy, Labor Market, Infrastructure, Education and Science, Family Policy, Religious Affairs; in the Federal Chancellery in Berlin. Close to Merkel, Roppel is the Chancellery "brains" on the demographic policy debate.

German Demographic Trends

¶3. On average, Germans are living longer (women 81 years, men 76 years) and having fewer children (in 2005, the birth rate was 1.4 children per woman, less than the replacement rate). The eastern German states are experiencing an especially alarming decline in the numbers of births since unification. Consequently, ever fewer people are paying into the social security system. Shortages of skilled workers are also looming. Given a projected growth of retirees from 24% now to 37% of the population by 2050, experts warn of enormous financial challenges for Germany's pension, healthcare, and long-term nursing care programs.

The Chancellery Steps Up to the Plate

¶4. How, then, is Germany responding? Roppel expressed optimism about the possibility of meaningful reforms of social insurance, labor market and education systems in Germany under the current CDU/CSU-SPD coalition and predicted improvements even before the next national elections. He was confident that the German people would gradually accept the necessary economic and social reforms. Roppel said that while demographic change bears financial risks, it was also an opportunity to rethink old ways and introduce new means to cope with these challenges. In his view, demographic change would affect every field of policy-making. This would involve not only providing greater financial support for raising children, but also improving older people's access to work, through for example, lifelong learning programs.

Where Reforms are Most Needed

¶5. Roppel singled out three major areas where the government must take action:

- increasing the labor force participation rate, particularly of women;
- improving worker productivity through

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reforms of the education and training systems ("highly inflexible, we could do much better"); and

-- transforming Germany's pay-as-you-go social insurance program into a hybrid program in which private savings would supplement the current system.

¶6. Roppel acknowledged that while there was a broad consensus in Germany on the need for reform, definition and implementation of reform would be difficult. "The status quo has many supporters," he said. He referred to the recent increase in the retirement age from 65 to 67, which, although implemented (over 17 years beginning in 2012), had met stiff opposition from lobby groups. In that context, he criticized the government for not introducing a more flexible retirement age.

Reforms Will Come, But . . .

¶7. Nevertheless, Roppel insisted that we would see reform measures progress, even before the next elections. (Note: he predicted the current coalition would be reelected). He was forgiving of German politicians, despite their "obsession" with short-term solutions in response to the concerns of their voters. Sometimes, he said, tackling tough issues needs time and long-term strategic thinking; one should not be discouraged when proposals are not immediately accepted. Roppel believes that Germans would accept changes if they were given a clear plan of action. He laid out areas where the government can stimulate job creation and also do a better job of preparing workers

through lifelong education.

¶ 8. Of course, it won't be easy. In addition to the common tendency of politicians to put off until tomorrow what you should do today, Roppel pointed out, Germany's demographic profile will severely narrow its policy options. What is more, the experience of former Chancellor Schroeder is not an encouraging precedent; voters did not take kindly to the structural reforms that he initiated, and many say it cost him the election. As Roppel noted, Germany's consensus-oriented society makes it difficult to enact far-reaching reforms.

Cooperation with U.S. is Highly Valued

¶ 9. Roppel expressed strong interest in meeting with American counterparts in the foreseeable future for in-depth exchange of views and experiences. He noted that Germany so far has not yet developed plausible and feasible answers of how to deal with the problem of "working poor," that is, how to entice welfare-dependent citizens back into the workplace. He believes that an Earned Income Tax Credit program like that in the U.S. was a promising approach to help people return to the labor market. He also praised U.S. approaches to pension reform. Roppel would especially like to cultivate stronger ties with U.S. government representatives and think tanks to strengthen this relationship.

Comment

¶ 10. Roppel struck us as a thoughtful and forward-leaning thinker with a practical grasp of what Germany needs to do. Given his strong curiosity about how the U.S. is approaching similar challenges, the Embassy will look for

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opportunities, including a possible IV for Roppel, to bring him together with U.S. counterparts. End Comment.

TIMKEN JR